



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Department of Military
Affairs*

*For the Two Fiscal Years Ended
June 30, 2016*

DECEMBER 2016

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DIVISION

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2015, was issued March 29, 2016. The Single Audit Report for the two fiscal years ended June 30, 2017, will be issued by March 31, 2018. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

December 2016

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Military Affairs (department) for the two fiscal years ended June 30, 2016. Included in this report are four recommendations related to grant reimbursements, revenue and expenditure accruals, and noncompliance with state law.

The department's written response to the audit recommendations is included in the audit report at page C-1. We thank the Adjutant General and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Department of Military Affairs

Major General Matthew T. Quinn, Adjutant General
Sundi West, Deputy Director, Director's Office
Delila Bruno, Administrator, Disaster and Emergency Services Division (as of July 2015)
Brad Livingston, Administrator, Disaster and Emergency Services Division (through July 2015)
Jan Rouse, Director, Montana Youth Challenge Program
Wendy Fechter, Director, Science and Technology Academies Reinforcing Basic Aviation and Space Exploration Program (STARBASE)
Joe Foster, Administrator, Veterans Affairs Division

Boards and Commissions

Board of Veterans Affairs
State Emergency Response Commission (SERC)

For additional information concerning the Department of Military Affairs, contact:

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT Department of Military Affairs For the Two Fiscal Years Ended June 30, 2016

DECEMBER 2016

16-25

REPORT SUMMARY

The Department of Military Affairs' operations are funded primarily by federal moneys. During fiscal years 2015 and 2016, the department's federal revenues were approximately \$55 million and \$51 million, respectively. Due to the department not accruing revenues in accordance with state accounting policy, a \$4.3 million misstatement resulted in a modified opinion on the 2015 Schedule of Changes in Fund Equity.

Context

The Department of Military Affairs consists of eleven programs: Air National Guard, Army National Guard, Montana Youth Challenge, Director's Office, Disaster & Emergency Services, Disaster Fund, Military Capital Construction, Montana Military Family Relief, Scholarship Program, Montana Science and Technology Academies Reinforcing Basic Aviation and Space Exploration (STARBASE), and Veterans Affairs.

The department, through the Army and Air National Guard, manages a joint federal-state program to maintain trained and equipped military organizations in readiness for state and national mobilizations to active duty. In addition to the National Guard, the department plans for and coordinates state responses in disaster and emergency situations. The department manages and cooperates with state and federal agencies in providing statewide services for discharged veterans and their families.

The department is funded primarily with federal funds supporting both personal services and operating costs of the Army National Guard, Air National Guard, Montana Youth Challenge, Disaster & Emergency Services, and Military Capital Construction programs. The department's general fund supports administrative costs in the Director's

Office and all funding for the Montana Guard Scholarship Program, which provides scholarships to eligible Montana National Guard personnel enrolled as undergraduate students. State special revenue funds primarily support the Veterans Affairs program with revenue from cemetery plot allowances and sale of veteran license plates.

Results

The prior audit included six recommendations, all of which the department fully implemented. During the current audit, we identified issues related to federal grant reimbursements and revenue and expenditure accruals. We also identified noncompliance with state law and determined the department was allowing cash in its federal fund to remain negative for longer than allowed. These issues are discussed in the four recommendations in the current audit report.

Recommendation Concurrence	
Concur	4
Partially Concur	0
Do Not Concur	0

Source: Agency audit response included in final report.

For a complete copy of the report (16-25) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>

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Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

Chapter I – Introduction

Audit Scope

We performed a financial-compliance audit of the Department of Military Affairs (department) for the two fiscal years ended June 30, 2016. The objectives of the audit were to:

1. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
2. Determine whether the financial schedules present fairly the results of operations and changes in fund equity of the department for each of the fiscal years ended June 30, 2016, and June 30, 2015.
3. Determine department compliance with selected laws and regulations.
4. Determine the implementation status of prior audit recommendations.

We addressed these objectives by focusing our audit efforts primarily on federal grants received for the National Guard Military Operations and Maintenance Projects, National Guard Military Construction Projects, and Disaster and Emergency Services. We also tested transactions related to personal services and operating expenditures. Our work included obtaining an understanding of the department's internal control policies and procedures, performing analytical procedures, and reviewing accounting transactions. We also reviewed and tested compliance with various state and federal laws and regulations.

Background

The department, through the Army and Air National Guard, manages a joint federal-state program to maintain trained and equipped military organizations in readiness for state and national mobilizations to active duty. The department consists of the following programs, as shown on the Schedules of Total Expenditures & Transfers-Out on pages A-9 and A-10, and authorized full-time equivalent positions (FTE).

Montana National Guard (43 FTE) has a unique dual mission that consists of both federal and state roles. The Governor can call the National Guard into action during local or statewide emergencies, such as storms, fires, earthquakes, or civil disturbances. In addition, the President of the United States can activate the National Guard for participation in federal missions. The Montana National Guard has two programs—the Army National Guard and the Air National Guard.

- ◆ **Army National Guard** is one component of the Army (which consists of the Active Army, the Army National Guard, and the Army Reserve). The Army National Guard is composed primarily of traditional Guardsmen—civilians who serve their country, state, and community on a part-time basis.
- ◆ **Air National Guard** maintains units available for prompt mobilization during war and provides assistance during national emergencies. During peacetime, the combat-ready units and support units carry out missions compatible with training, mobilization readiness, humanitarian, and contingency operations.

Military Capital Construction (40.3 FTE) provides support to the Army and Air National Guard for the construction of military facilities, real property improvements, design services, and other projects authorized and directed by Congress or the Department of Defense.

Director's Office (12.75 FTE) is the primary administrative support organization for the department and provides oversight for budgeting, fiscal management, payroll, human resource management, purchasing, property control, policy development and implementation, and assists with interpretation of rules, regulations, and statutes for all programs within the department.

Disaster and Emergency Services Division (DES) (23 FTE) works with local, state, and federal officials to prepare, update, and coordinate emergency preparedness, response and recovery plans. This responsibility includes the administration and disbursement of federal homeland security and emergency management funds to eligible applicants across the state. DES provides technical support for civil defense shelters, exercises, and radiological defense and monitoring. The division also receives, records, and disburses federal funds to eligible government entities.

Disaster Fund Program (0.0 FTE) is administered by DES to provide assistance under an emergency or major disaster declaration. The department works with the Federal Emergency Management Agency and uses the funds to restore its own disaster-damaged facilities and to provide subgrants to local governments.

Montana Youth Challenge Academy (53.15 FTE) is a 17-month, voluntary, military-modeled training program targeting unemployed, drug-free, and crime-free youth ages 16 to 18 who have stopped attending secondary school before graduating. The program provides values, skills, education, and self-discipline in a quasi-military modeled training environment. The Residential Phase of the program is a 5-month residential stay on the campus of University of Montana–Western in Dillon focusing on physical training, classroom instruction, personal development, and life skills. The Mentoring Phase is a year-long mentoring relationship with a specially-trained member

of the community where the youth resides to provide a positive role model and to assist the student in gaining employment or enrolling in postsecondary schooling.

Veterans Affairs Division (26 FTE) manages and cooperates with state and federal agencies in providing statewide services for discharged veterans and their families. It promotes the general welfare of veterans and assists Montana's veterans and dependents in obtaining veterans benefits. The program also administers the veterans' cemeteries located in Miles City, Helena, and Missoula.

Montana STARBASE (Science and Technology Academies Reinforcing Basic Aviation and Space Exploration) "Big Sky" Program (2 FTE) is for elementary school-aged children. Its goals include raising interest and improving the knowledge and skills of at-risk youth in math, science, and technology by exposing the students and their teachers to real world applications of math and science. The program uses positive role models found on military bases and installations to implement experimental learning, simulations, and experiments in aviation and space-related fields. The program has two locations in Montana, Helena and Great Falls, as well as summer outreach programs to tribes within the state.

Montana Military Family Relief Fund (0.0 FTE) is administered by the Director's Office and provides monetary grants to families of Montana National Guard and Reserve Component members who meet the grant criteria. The grants are intended to help Montana families defray the costs of food, housing, utilities, medical services, and other expenses that become difficult to afford when a wage-earner has temporarily left civilian employment to be placed on active military duty.

Montana Guard Scholarship Program (0.0 FTE) is administered by the Director's Office and was established to assist in recruiting and retention efforts for the Montana National Guard. The program provides scholarships to eligible Montana National Guard personnel enrolled as undergraduate students at Montana colleges, universities, or in training programs.

Prior Audit Recommendations

The prior audit report for the two fiscal years ended June 30, 2014, contained six recommendations to the department. These recommendations pertained to noncompliance with state law and administrative rules, the recording of unsupported accruals, not recording accruals consistently between years, and internal control deficiencies over accounting transactions and reimbursements of grant expenditures without having a signed grant agreement. The department fully implemented all six recommendations.

Chapter II – Findings and Recommendations

Grant Reimbursements

The department does not have adequate internal controls in place over its non-disaster related grants to ensure only allowable costs are reimbursed.

State accounting policy requires all state agencies to implement internal controls to help facilitate statewide compliance with generally accepted accounting principles (GAAP). Additionally, federal regulations require recipients of federal assistance to establish and maintain effective internal control to provide reasonable assurance the federal award is being administered in compliance with statutes, regulations, and the terms and conditions of the federal award.

The Department of Military Affairs' (department) Disaster and Emergency Services Division (DES) administers several non-disaster related federal grants, such as Homeland Security Grants and Emergency Management Performance Grants, to subgrantees throughout the state. The subgrantees expend the funds for projects outlined in grant agreements and then request reimbursement from DES. Once the subgrantee submits the reimbursement request, it is reviewed by DES personnel to determine if the funds were spent on allowable costs, which are costs that are necessary, reasonable, and allocable to the project. During our audit period, subgrantees were reimbursed approximately \$11.3 million by the department, but we determined the department's procedures were not adequate to ensure reimbursements were made only for allowable costs.

We reviewed a sample of 32 grant reimbursements and identified the following issues:

- ◆ Four instances where there was no evidence of review of the reimbursement request's supporting documentation.
- ◆ Five instances where the reimbursement amount was not supported by documents submitted to the department by the subgrantees.
- ◆ One instance where the subgrantee's expenditures were incurred outside of the grant period but were still reimbursed by the department.

Department staff responsible for reviewing and approving reimbursement requests stated they were new to their positions during the audit period and because there are no written procedures for the grant reimbursement process, they independently developed their own processes for reviewing and approving the reimbursements.

To help determine the extent of the unsupported reimbursements, we reviewed five additional reimbursements and requested DES staff provide us all supporting documents. The supporting documentation provided by the department did not adequately support the allowability of the reimbursements and DES staff indicated additional documentation did not exist. In response, we completed a preliminary analysis to project the amount of unallowable costs the department could have potentially reimbursed during the audit period. Our analysis was based on the assumption that all of the reimbursements made during our audit period for those subgrantees with identified documentation deficiencies were unsupported, thus unallowable. We estimated the amounts could be as high as \$3.9 million in fiscal year 2015 and \$1.5 million in fiscal year 2016.

Only after we formally communicated the estimated magnitude of these issues to management, and the potential effect on the Independent Auditor's Report, did the department provide the documentation we had requested. We updated our analysis and determined the unallowable reimbursements made by the department were approximately \$20,000 and \$35,000 in fiscal years 2015 and 2016, respectively, but could be as much as \$730,000 and \$960,000, respectively. This resulted in federal questioned costs.

In respect to the total amount of federal funds expended by the department, our projection of unallowable costs are not material to the department's financial schedules, and thus do not modify our opinion. However, because of the potential for the department to reimburse material amounts to subgrantees for unallowable costs due to inadequate controls, we consider the department to have a material control weakness for financial reporting purposes.

RECOMMENDATION #1

We recommend the Department of Military Affairs improve internal controls over the grant reimbursement process in the Disaster & Emergency Services Division to ensure the expenditures are allowable under the grant awards.

Revenue Accruals

The department did not accrue revenue in accordance with state accounting policy.

The department receives financial assistance from the federal government to support various activities, including the preparation for and response to natural disasters and terrorist attacks. The department also completes military construction projects throughout the state. The department expends funds for allowable activities and then requests reimbursement from the federal government. Per state accounting policy, at fiscal year-end, the amount due from the federal government should be recorded, along with a corresponding accounts receivable, in order to recognize the revenue in the correct fiscal year. In addition, as previously mentioned, state accounting policy requires all state agencies to implement internal controls to help facilitate statewide compliance with GAAP.

In fiscal years 2014, 2015, and 2016, the department did not have internal controls in place to ensure it recorded the amounts due from the federal government, or the corresponding accounts receivable, for two of its federal programs. The amounts were recorded in the following fiscal years which resulted in the Federal Special Revenue Fund federal revenues being overstated by approximately \$2.5 million and understated by approximately \$1.2 million in fiscal years 2015 and 2016, respectively. In addition, the 2015 beginning fund equity balance is understated by \$4.3 million on the 2015 Schedule of Changes in Fund Equity and resulted in a modified opinion. Department staff stated they did not realize they needed to record the revenue accruals and corresponding accounts receivables.

RECOMMENDATION #2

We recommend the Department of Military Affairs implement internal controls to ensure it records revenue accruals in accordance with state accounting policy.

Disaster Grants Expenditure Accruals

The department did not record all valid obligations in accordance with state accounting policy.

The Disaster and Emergency Services Division (DES) administers federal grants received for federally declared disasters within the state. These grants are awarded based on state and Federal Emergency Management Agency (FEMA) approved projects and are completed by subgrantees throughout the state. During the project, subgrantees request and receive reimbursement from the department for the costs of the project. When a subgrantee completes a project, department staff review the subgrantees' supporting documentation for the entire project to ensure funds were actually expended by the subgrantee and the expenditures were allowable under the grant. The department's review process takes approximately one month to complete. Once the department has reviewed and accepted the supporting documentation, the information is sent to FEMA for review in order to close out the project at the federal level. During fiscal years 2015 and 2016, the department did not include these closed-out projects in their accrual process resulting in an understatement in Grants from Federal Sources on the 2015 and 2016 Schedule of Expenditures & Transfers-Out of approximately \$554,000 and \$1,350,000, respectively.

State accounting policy requires contractual amounts to be accrued if the performance is complete or virtually complete. Because the subgrantees have completed the projects that were outlined in the grant agreements, the final amounts owed to the subgrantees are valid obligations of the department and should be recorded on the department's accounting records.

Department staff stated they did not believe these amounts needed to be recorded as it could take several years until the projects are finally closed out at the federal level. While we did not modify the opinions for these misstatements, we determined because the department completes a final review of the project, it has a reasonable expectation of the final amount that will be approved by FEMA and paid to the subgrantee. The performance on the contract is virtually complete after the department's final review and the expenditures should be recorded on the state's accounting records at that time.

RECOMMENDATION #3

We recommend the Department of Military Affairs record all valid obligations in accordance with state accounting policy.

Negative Cash Balance

The department maintained negative cash balances for more days than allowed by state law.

Section 17-2-107(7), MCA, allows a fund type within an agency to carry a negative balance at any point during the fiscal year if the negative cash balance does not exist for more than seven working days. After seven days, a transaction may not be processed through the statewide accounting system for that fund. During our audit, we identified 11 instances during fiscal years 2015 and 2016 where the department's cash balance in the federal special revenue fund type was negative for more than the seven working days allowed under state law. The number of days the negative cash balance existed ranged between 9 and 27 days, with the average being 14 days. The dollar amount of the negative cash ranged from approximately \$60,000 to \$5.5 million, with the average being \$950,000.

Department staff attributed the negative cash balances to late federal reimbursements, but in these instances, state law allows the Department of Administration to authorize a temporary loan if there is reasonable evidence that the loan can be repaid within one year. Department staff stated they did not obtain a loan because they were still able to access the fund and process transactions. Even though the department was still able to process transactions, it does not relieve the department of the responsibility to monitor its cash balances and request a loan to prevent noncompliance with state law.

RECOMMENDATION #4

We recommend the Department of Military Affairs comply with state law and ensure cash balances do not remain negative for more than seven working days.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
 Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
 Cindy Jorgenson
 Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
 of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Military Affairs (department) for each of the fiscal years ended June 30, 2016, and 2015, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness

of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets and liabilities.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the department as of June 30, 2016, and June 30, 2015, or changes in financial position for the years then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

The department did not record revenue accruals for reimbursements expected from the federal government in fiscal year 2014. As a result, the Federal Special Revenue Fund beginning fund equity on the Schedule of Changes in Fund Equity for the fiscal year ended June 30, 2015, is understated by \$4.3 million. The ending fund equity is not affected by this misstatement.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the Schedule of Changes in Fund Equity for the fiscal year ended June 30, 2015, presents fairly, in all material respects, the results of operations and changes in fund equity of the Department of Military Affairs, in conformity with the basis of accounting described in Note 1.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedule of Changes in Fund Equity for fiscal year ended June 30, 2016, and the Schedules of Total Revenues & Transfers-In and Schedules of Total Expenditures & Transfers-Out, for each of the fiscal years ended June 30, 2016, and 2015, present fairly, in all material respects, the

results of operations and changes in fund equity of the Department of Military Affairs, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016, on our consideration of the Department of Military Affairs' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

October 31, 2016

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund <u>\$ (1,595,471)</u>	State Special Revenue Fund <u>\$ 1,257,868</u>	Federal Special Revenue Fund <u>\$ (1,832,733)</u>	Capital Projects Fund <u>\$ 0</u>
FUND EQUITY: July 1, 2015				
ADDITIONS				
Budgeted Revenues & Transfers-In	37,623	2,228,835	49,737,030	7,000
Nonbudgeted Revenues & Transfers-In	6	265,106		
Prior Year Revenues & Transfers-In Adjustments	7,893,056	48,073	1,497,157	
Direct Entries to Fund Equity	7,930,685	2,193,963		
Total Additions	<u>7,930,685</u>	<u>4,735,978</u>	<u>51,234,187</u>	<u>7,000</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	7,193,454	3,455,164	55,055,622	7,000
Nonbudgeted Expenditures & Transfers-Out	(13,026)	(17,600)		
Prior Year Expenditures & Transfers-Out Adjustments	45,975	3,319	(182,379)	
Total Reductions	<u>7,226,403</u>	<u>3,440,883</u>	<u>54,873,243</u>	<u>7,000</u>
FUND EQUITY: June 30, 2016	<u>\$ (891,189)</u>	<u>\$ 2,552,962</u>	<u>\$ (5,471,789)</u>	<u>\$ 0</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund
FUND EQUITY: July 1, 2014	<u>\$ (479,833)</u>	<u>\$ 1,201,917</u>	<u>\$ (9,042,595)</u>	<u>\$ (477,673)</u>
ADDITIONS				
Budgeted Revenues & Transfers-In	5,338	1,184,759	48,943,269	3,841,022
Nonbudgeted Revenues & Transfers-In		800,718	(458)	
Prior Year Revenues & Transfers-In Adjustments		7,542	5,971,985	19,938
Direct Entries to Fund Equity		128,333	(200,190)	
Total Additions	<u>5,503,087</u>	<u>2,121,352</u>	<u>54,714,606</u>	<u>3,860,960</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	6,646,888	2,047,949	48,547,553	3,383,287
Nonbudgeted Expenditures & Transfers-Out	(5,840)	(2,847)		
Prior Year Expenditures & Transfers-Out Adjustments	(16,985)	20,299	(1,042,809)	
Total Reductions	<u>6,624,063</u>	<u>2,065,401</u>	<u>47,504,744</u>	<u>3,383,287</u>
FUND EQUITY: June 30, 2015	<u>\$ (1,595,471)</u>	<u>\$ 1,257,868</u>	<u>\$ (1,832,733)</u>	<u>\$ 0</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Charges for Services	\$ 206	\$ 284,257	\$ 1,096		\$ 285,559
Investment Earnings		2,074			2,074
Sale of Documents, Merchandise and Property	3,299	1,032,222	18,530		1,054,051
Rentals, Leases and Royalties	32,900	1,430			34,330
Grants, Contracts, and Donations		275,195			275,195
Transfers-in	1,224	946,837	143,253	\$ 7,000	1,098,314
Federal Indirect Cost Recoveries			14,067		14,067
Federal			51,057,241		51,057,241
Total Revenues & Transfers-In	<u>37,629</u>	<u>2,542,015</u>	<u>51,234,187</u>		<u>53,820,831</u>
Less: Nonbudgeted Revenues & Transfers-In		265,106			265,106
Prior Year Revenues & Transfers-In Adjustments	<u>6</u>	<u>48,073</u>	<u>1,497,157</u>		<u>1,545,236</u>
Actual Budgeted Revenues & Transfers-In	<u>37,623</u>	<u>2,228,835</u>	<u>49,737,030</u>		<u>7,000</u>
Estimated Revenues & Transfers-In		2,228,835	49,737,030		52,010,489
Budgeted Revenues & Transfers-In Over (Under) Estimate	<u>0</u>	<u>0</u>	<u>0</u>	<u>\$ 0</u>	<u>\$ 0</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Budgeted Revenues & Transfers-In Over (Under) Estimate	<u>0</u>	<u>0</u>	<u>0</u>	<u>\$ 0</u>	<u>\$ 0</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund		State Special Revenue Fund		Federal Special Revenue Fund		Capital Projects Fund		Total
	\$	2,475	\$	239,185 639	\$	1,517 2,531	\$	1,517 244,191	
TOTAL REVENUES & TRANSFERS-IN BY CLASS									
Taxes	\$	2,475	\$	239,185 639	\$	1,517 2,531	\$	1,517 244,191	
Charges for Services									639
Investment Earnings									8,946
Sale of Documents, Merchandise and Property									4,201
Rentals, Leases and Royalties		32		8,147 1,370		767			
Grants, Contracts, and Donations		2,831		816,323					816,323
Transfers-in				927,354					4,900,983
Federal Indirect Cost Recoveries									2,255
Federal									54,795,058
Total Revenues & Transfers-In		5,338		1,993,019 800,718		54,914,796 (458)		3,860,960	
Less: Nonbudgeted Revenues & Transfers-In				7,542		5,971,985		19,938	
Prior Year Revenues & Transfers-In Adjustments									60,774,114
Actual Budgeted Revenues & Transfers-In		5,338		1,184,759		48,943,269		3,841,022	
Estimated Revenues & Transfers-In		4,169		1,318,828		46,673,929		5,000,000	
Budgeted Revenues & Transfers-In Over (Under) Estimated		\$ 1,169		\$ (134,069)		\$ 2,269,341		\$ (1,158,978)	
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS									
Licenses and Permits									\$ (208)
Taxes	\$		\$ (1)		\$ (208)				
Charges for Services									\$ (1)
Investment Earnings									(37,045)
Sale of Documents, Merchandise and Property									(920)
Rentals, Leases and Royalties									5,438
Grants, Contracts, and Donations									(631)
Transfers-in									5,810
Federal Indirect Cost Recoveries									(1,319,702)
Federal									(60,246)
Budgeted Revenues & Transfers-In Over (Under) Estimated									2,384,968
									\$ 2,269,341
									\$ (1,158,978)
									\$ 977,464

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Air National Guard Program	Army National Guard Program	Challenge Program	Director's Office	Disaster & Emergency Services	Disaster Fund	Military Capital Construction	Montana Military Family Relief Fund	Scholarship Program	STARBASE	Veterans Affairs Program	Total
Personal Services												
Salaries	\$ 2,091,382	\$ 2,326,396	\$ 2,012,737	\$ 794,429	\$ 1,356,576	\$ 260,375			\$ 149,235	\$ 1,346,826	\$ 10,337,954	
Hourly Wages	246										246	
Other Compensation			2,990								2,990	
Employee Benefits	939,759	868,550	899,341	266,429	502,650	14,789			57,520	567,353	4,116,391	
Total	3,031,387	3,194,946	2,915,067	1,060,857	1,859,226	275,164			206,755	1,914,179	14,457,581	
Operating Expenses												
Other Services	617,402	7,408,942	609,646	89,485	144,000	\$ 470			300,799	43,001	9,213,746	
Supplies & Materials	208,458	409,966	267,986	25,931	106,961				130,784	106,805	1,256,890	
Communications	64	152,191	55,431	17,354	50,242				3,342	47,537	326,160	
Travel	9,337	63,575	45,497	11,315	95,037	30,538			14,615	33,190	303,104	
Rent	571	386,954	342,335	799	50,607	1,780,626			36	50,634	2,612,563	
Utilities	573,855	1,883,285	2,150							18,222	2,477,513	
Repair & Maintenance	91,414	4,611,815	14,798	21,513	24,849				727	33,655	4,798,771	
Other Expenses	27,293	40,387	79,256	15,374	79,935	16,171			2,332	10,431	448,638	
Goods Purchased For Resale		2,005		10,967					15		12,987	
Total	1,528,394	14,959,120	1,417,099	192,738	551,632	1,827,336	470		177,458	452,650	343,476	21,450,372
Equipment & Intangible Assets												
Equipment	13,887	204,648								40,414	258,949	
Total	13,887	204,648								40,414	258,949	
Capital Outlay												
Land & Interest In Land											184,595	
Buildings											18,428,698	
Total											18,613,293	
Grants												
From State Sources					33,758	797,724	\$ 30,500					861,982
From Federal Sources					6,444,838	2,420,124						8,864,962
Total					6,478,596	3,217,848						9,726,944
Benefits & Claims												
To Individuals				1,520								1,520
Total				1,520								1,520
Transfers-out												
Fund transfers		25,000		7,165	952,969	46,738	7,000					1,038,871
Total		25,000		7,165	952,969	46,738	7,000					1,038,871
Total Expenditures & Transfers-Out	\$ 4,573,667	\$ 18,383,713	\$ 4,332,166	\$ 1,262,280	\$ 9,842,423	\$ 5,367,086	\$ 18,620,763	\$ 30,500	\$ 177,458	\$ 659,405	\$ 2,298,069	\$ 65,547,529
EXPENDITURES & TRANSFERS-OUT BY FUND												
General Fund	\$ 419,712	\$ 1,651,254	\$ 945,744	\$ 847,548	\$ 1,227,596	\$ 889,176			\$ 177,458		\$ 1,067,916	\$ 7,226,403
State Special Revenue Fund		1,570			76,160	2,102,500						1,230,153
Federal Special Revenue Fund	4,153,955	16,730,890	3,386,422	414,733	8,538,667	2,375,410	\$ 18,613,763	\$ 30,500				3,440,883
Capital Projects Fund							7,000					54,873,243
Total Expenditures & Transfers-Out	4,573,667	18,383,713	4,332,166	1,262,280	9,842,423	5,367,086	18,620,763	30,500	177,458	659,405	2,298,069	65,547,529
Less: Nonbudgeted Expenditures & Transfers-Out	(712)	(489)	(6,068)	(1,277)	(2,462)	(10,818)					(8,800)	(30,626)
Prior Year Expenditures & Transfers-Out Adjustments	16,495	101,633	(188)	10,894	(265,955)						4,977	(133,084)
Actual Budgeted Expenditures & Transfers-Out	4,557,884	18,282,569	4,338,422	1,252,663	10,110,840	5,377,904	18,620,763	30,500	178,400	659,403	2,301,892	65,711,240
Budget Authority	5,651,821	19,174,243	4,612,191	1,487,829	22,408,064	15,444,777	46,386,072	40,000	209,409	670,090	2,880,038	118,964,534
Unspent Budget Authority	\$ 1,093,937	\$ 891,673	\$ 273,770	\$ 235,166	\$ 12,297,224	\$ 10,066,874	\$ 27,765,310	\$ 9,500	\$ 31,009	\$ 10,687	\$ 578,146	\$ 53,253,295
UNSPENT BUDGET AUTHORITY BY FUND												
General Fund	\$ 23,149	\$ 10,534	\$ 95,805	\$ 105,637	\$ 257,634	\$ 3,348,511			\$ 31,009		\$ 575	\$ 3,872,854
State Special Revenue Fund		2,773			42,057	723,988					495,903	1,274,221
Federal Special Revenue Fund	1,070,788	878,366	177,965	129,530	11,997,533	5,994,374	\$ 27,283,423	\$ 9,500			50,895	47,593,560
Capital Projects Fund							481,887				30,773	512,660
Unspent Budget Authority	\$ 1,093,937	\$ 891,673	\$ 273,770	\$ 235,166	\$ 12,297,224	\$ 10,066,874	\$ 27,765,310	\$ 9,500	\$ 31,009	\$ 10,687	\$ 578,146	\$ 53,253,295

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF MILITARY AFFAIRS
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Air National Guard Program	Army National Guard Program	Challenge Program	Director's Office	Disaster & Emergency Services	Disaster Fund	Military Capital Construction	Montana Military Family Relief Fund	Scholarship Program	STARBASE	Veterans Affairs Program	Total		
Personal Services														
Salaries	\$ 2,058,979	\$ 2,188,889	\$ 143	\$ 1,896,309	\$ 717,496	\$ 1,213,398	\$ 70,271		\$ 120,471	\$ 1,229,304	\$ 9,495,119			
Hourly Wages												143		
Other Compensation												3,515		
Employee Benefits	\$ 888,911	\$ 806,013		\$ 833,422	\$ 227,545	\$ 446,444	\$ 12,922		\$ 46,515	\$ 504,242	\$ 3,766,014			
Total	\$ 2,947,890	\$ 2,995,045		\$ 2,733,245	\$ 945,042	\$ 1,659,843	\$ 83,193		\$ 166,986	\$ 1,733,546	\$ 13,264,790			
Operating Expenses														
Other Services	688,748	6,163,937		567,008	36,588	273,889	639,669	\$ 46,471	133,601	39,990	8,589,902			
Supplies & Materials	202,409	691,763		194,957	47,569	221,754			40,450	165,986	1,564,888			
Communications	2,420	262,236		44,119	13,392	42,765			2,820	43,289	411,042			
Travel	13,309	42,271		45,709	12,863	145,803	4,858	250,366		9,918	40,434	565,531		
Rent	5,088	388,929		347,502	20,849	1,286				58,979	822,632			
Utilities	722,145	2,070,796		1,837							17,949	2,812,727		
Repair & Maintenance	94,920	5,506,232		33,293	22,710	4,379		639,358		6,677	21,990	6,329,559		
Other Expenses	9,551	39,503	1,131	85,952	2,198	104,217	6,123		\$ 207,006	9,925	16,508	480,984		
Goods Purchased For Resale											7,456			
Total	\$ 1,738,590	\$ 15,166,799		\$ 1,320,376	\$ 162,494	\$ 794,093	\$ 650,650	\$ 936,196		\$ 207,006	\$ 203,392	\$ 405,124	\$ 21,584,721	
Equipment & Intangible Assets														
Equipment		104,961				56,804					47,715	209,480		
Total		\$ 104,961				\$ 56,804					47,715	\$ 209,480		
Capital Outlay														
Land & Interest In Land												131,541		
Buildings											445	5,363,355		
Total											445	5,494,895		
Grants														
From State Sources						345,229	647,474		\$ 12,000			141,000	1,145,703	
From Federal Sources						8,200,795	2,671,890					10,872,686		
Total						\$ 8,546,024	\$ 3,319,365					141,000	12,018,389	
Benefits & Claims														
To Individuals						2,090						2,090		
Total						\$ 2,090						2,090		
Transfers-out														
Fund transfers		25,000			183	2,907,765	209,221	3,860,960				7,003,129		
Total		\$ 25,000			\$ 183	\$ 2,907,765	\$ 209,221	\$ 3,860,960				\$ 7,003,129		
Total Expenditures & Transfers-Out	\$ 4,686,480	\$ 18,291,805	\$ 4,053,621	\$ 1,109,809	\$ 13,964,529	\$ 4,262,429	\$ 10,291,606	\$ 12,000	\$ 207,006	\$ 370,378	\$ 2,327,831	\$ 59,577,495		
EXPENDITURES & TRANSFERS-OUT BY FUND														
General Fund	\$ 397,552	\$ 1,470,876	\$ 931,545	\$ 717,556	\$ 1,157,544	\$ 643,015			\$ 207,006		\$ 1,098,968	\$ 6,624,063		
State Special Revenue Fund			710		86,110	86,110						1,228,278		
Federal Special Revenue Fund	4,288,929	16,820,219	3,122,075	392,253	12,720,874	738,303						47,504,744		
Capital Projects Fund					2,881,111	\$ 6,908,319						585		
Total Expenditures & Transfers-Out	4,686,480	18,291,805	4,053,621	1,109,809	13,964,529	4,262,429	10,291,606					3,383,287		
Less: Nonbudgeted Expenditures & Transfers-Out	(307)	(229)	(2,608)	(655)	(1,099)									
Prior Year Expenditures & Transfers-Out Adjustments	85,854	(67,210)	(19,353)	13,657	(1,074,100)									
Actual Budgeted Expenditures & Transfers-Out	4,600,934	18,359,244	4,075,582	1,096,807	15,039,728	4,262,429	10,291,606					2,327,831		
Budget Authority	4,834,681	18,810,424	4,236,236	1,313,500	25,066,925	19,142,958	56,677,678					59,577,495		
Unspent Budget Authority	\$ 233,747	\$ 451,179	\$ 160,654	\$ 216,693	\$ 10,027,196	\$ 14,880,529	\$ 46,386,072	\$ 109,012	\$ 2,403	\$ 357,856	\$ 526,595	\$ 73,351,937		
UNSPENT BUDGET AUTHORITY BY FUND														
General Fund	\$ 23,026	\$ 33,985	\$ 23,350	\$ 147,861	\$ 278,201	\$ 3,990,444			\$ 2,403		\$ 82,328	\$ 4,581,598		
State Special Revenue Fund		2,790			150,426	4,132,507					362,600	4,757,334		
Federal Special Revenue Fund	210,721	414,404	137,304	68,832	9,598,570	6,757,578	\$ 45,897,186				50,895	63,493,345		
Capital Projects Fund							488,887				30,773	519,660		
Unspent Budget Authority	\$ 233,747	\$ 451,179	\$ 160,654	\$ 216,693	\$ 10,027,196	\$ 14,880,529	\$ 46,386,072	\$ 109,012	\$ 2,403	\$ 357,856	\$ 526,595	\$ 73,351,937		

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

Department of Military Affairs
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2016

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue and Capital Projects). In applying the modified accrual basis, the department records:

- ◆ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ◆ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- ◆ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ◆ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include Veterans Affairs funds, Search and Rescue funds, the Military Family Relief fund, various Army funds, and EMAC funds. In Fiscal Year 15 the Department received and spent \$735,540.82 for EMAC support in the State Special Revenue Fund. In Fiscal Year 16 the Department received an inheritance in the amount

of \$264,849.68 which is recorded in the State Special Revenue Fund as a non-budgeted transfers-in.

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include various DES grant funds, Army and Air National Guard funds, and federal reimbursable construction funds.
- ♦ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund for its capital projects.

2. General Fund Equity Balance

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2015, and June 30, 2016.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General, Special Revenue, Federal Special Revenue Fund, and Capital Projects fund(s) include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Capital Projects Fund

The differences in the Capital Projects Fund is due to the completion of Miles City Armory Project, which was funded by both state and federal funds, and no new split-funded projects were started during fiscal year 2016.

5. Budgeted Revenues & Transfers-In Over (Under) Estimated By Class

The significant difference in the revenue estimates between FY 2015 and FY 2016 is because the department did not adjust the revenue estimates in SFY 2015 and the original SABHRS revenue estimates were left unchanged.

6. Unspent Budget Authority

Budget Authority is given to the Department for Military Capital Construction in the long range building appropriation. Those projects are depending on federal funding

becoming available and there may be extended period of times between the authority given to the department and the actual begin of the construction project.

Budget Authority is given to the department for the Disaster Fund depending on the disaster that took place. Since those also include construction projects and in conjunction with Montana's short construction season they may take an extended time covering more than a biennium.

In the last legislature session Disaster and Emergency Services asked and received twice as much federal authority as they had before in order to restructure their funding under HB 2 for mitigation projects. The division is still in the process of moving authority.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Military Affairs (department) for each of the fiscal years ended June 30, 2016, and 2015, and the related notes to the financial schedules, and have issued our report thereon dated October 31, 2016. Our report includes a qualified opinion on the 2015 Schedule of Changes in Fund Equity.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the department's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the table on page B-2, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance. The table below outlines the significant deficiency and material weakness we identified during the audit.

Summary of Deficiencies in Internal Control		
Subject	Type of Deficiency	Page in 16-25 Report
Grant Reimbursements	Material Weakness	5
Revenue Accruals	Significant Deficiency	7

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department of Military Affairs Response to Findings

The Department of Military Affairs' response to the findings identified in our audit is described on page C-1 of this report. The department's response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

October 31, 2016

DEPARTMENT OF
MILITARY AFFAIRS

DEPARTMENT RESPONSE

DEPARTMENT OF MILITARY AFFAIRS

STATE OF MONTANA



OFFICE OF THE ADJUTANT GENERAL

ARMED FORCES RESERVE CENTER
1956 MT MAJO STREET - PO BOX 4789
FORT HARRISON, MONTANA 59636-4789
406.324.3010



THE HONORABLE STEVE BULLOCK
GOVERNOR

MAJOR GENERAL MATTHEW T. QUINN
ADJUTANT GENERAL

December 19, 2016

Angus Maciver
Legislative Auditor
P. O. Box 201705
Helena, MT 59620-1705

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LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver,

In reply to the Financial Compliance Audit Report received by this office December 8, 2016 we are submitting the following response:

Recommendation #1: We concur with your recommendation but with comment.

The Department of Military Affairs (DMA) agrees with the instance of a grant expenditure payment made outside of the period of performance established by a state contract. However, the expenditure was within the Federal period of performance. DMA will ensure the internal control procedures are updated to include a review of the State versus Federal performance period.

The Department of Military Affairs Disaster and Emergency Services Division worked for the past 12 months to develop a Financial & Grant Administration Standard Operating Procedure approved in September 2016. This document provides core roles and responsibilities for DMA staff related to grant programs and internal controls. Appendices related to specific grant procedures, such as sub-awardee monitoring, are currently being drafted.

The department will be in compliance with this recommendation no later than February 28th, 2017.

Recommendation #2: We concur with your recommendation.

The Department of Military Affairs will implement internal controls to ensure it records revenue accruals in accordance with state accounting.

The department will be in compliance with this recommendation no later than January 1, 2017.

Recommendation #3: We concur with your recommendation.

The Department of Military Affairs will record valid obligations in accordance with state accounting policy.

The department will be in compliance with this recommendation no later than January 1, 2017.

Angus Maciver
December 19, 2016
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Recommendation #4: We concur with your recommendation.

The Department of Military Affairs will comply with state law and ensure cash balances do not remain negative for more than seven working days.

The department will be in compliance with this recommendation no later than January 1, 2017.

Sincerely,



Matthew T. Quinn
Major General, Montana National Guard
The Adjutant General